

**IOWA STORED ENERGY PLANT AGENCY
TRAER, IOWA**

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED
FEBRUARY 28, 2011 AND 2010**

IOWA STORED ENERGY PLANT AGENCY

TABLE OF CONTENTS

	Page
OFFICIALS	1
INDEPENDENT AUDITORS' REPORT	2
FINANCIAL STATEMENTS	
Statements of Net Assets	4
Statements of Revenues, Expenses, and Changes in Net Assets	5
Statements of Cash Flows	6
Notes to Financial Statements	7
OTHER REPORT	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	11
Schedule of Findings	13

IOWA STORED ENERGY PLANT AGENCY

OFFICIALS

Administrative Board

John Bilsten	President	Algona Municipal Utilities
Pat Parker	Vice-President/Treasurer	City of Panora
Scott Tonderum	Secretary	Graettinger Municipal Light Plant
Dennis Fannin	Trustee	Osage Municipal Utilities
Mike Wilkinson	Trustee	Winterset Municipal Utilities
Ray Wahle	Trustee	Western Minnesota Municipal Power Agency
Steve Thompson	Trustee	Central Minnesota Municipal Agency

Others

Kent Holst	ISEPA Development Director	Iowa Stored Energy Plant Agency
Bob Haug	Ex Officio Board member	Iowa Association of Municipal Utilities
Bob Schulte	Executive Director/ Project Manager	Schulte Associates LLC
Nick Critelli	General Council	Critelli Law P.C.

O'Donnell, Ficenec, Wills & Ferdig, LLP

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INDEPENDENT AUDITORS' REPORT

Iowa Stored Energy Plant Agency
Traer, Iowa

We have audited the accompanying financial statements of Iowa Stored Energy Plant Agency as of and for the years ended February 28, 2011 and 2010 as listed in the table of contents. These financial statements are the responsibility of Iowa Stored Energy Plant Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Iowa Stored Energy Plant Agency as of February 28, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

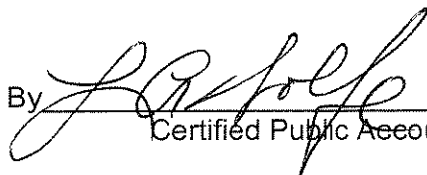
In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2011, on our consideration of Iowa Stored Energy Plant Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Iowa Stored Energy Plant Agency has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

O'DONNELL, FICENEC, WILLS & FERDIG, LLP

October 25, 2011

By

A handwritten signature in cursive script, appearing to read "J. A. Ferdig", is written over a horizontal line.

Certified Public Accountant

IOWA STORED ENERGY PLANT AGENCY

STATEMENTS OF NET ASSETS FEBRUARY 28, 2011 AND 2010

ASSETS	2011	2010
CURRENT ASSETS:		
Cash and Invested Funds -		
Operating Account	\$ 123,457	\$ 140,998
IPAIT Accounts	<u>675,597</u>	<u>567,942</u>
Total Cash and Invested Funds	799,054	708,940
Receivable -		
Grant Contract	<u>76,000</u>	<u>1,600,000</u>
Total Current Assets	875,054	2,308,940
CAPITAL ASSETS:		
Land and Improvements, Net	1,704,952	1,705,478
	<u>\$ 2,580,006</u>	<u>\$ 4,014,418</u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts Payable - Trade	\$ 261,080	\$ 119,816
Accrued Interest Payable	31,876	-
Current Portion of Non-Current Liabilities	<u>80,000</u>	<u>60,000</u>
Total Current Liabilities	372,956	179,816
NON-CURRENT LIABILITIES:		
Land Contract	1,340,000	1,420,000
Grant Contract - Office of Energy Independence	<u>3,200,000</u>	<u>2,324,160</u>
Total Non-Current Liabilities	4,540,000	3,744,160
Total Liabilities	4,912,956	3,923,976
NET ASSETS:		
Unrestricted (Deficit)	(2,332,950)	90,442
	<u>\$ 2,580,006</u>	<u>\$ 4,014,418</u>

See Notes to Financial Statements.

IOWA STORED ENERGY PLANT AGENCY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED FEBRUARY 28, 2011 AND 2010

	2011	2010
OPERATING REVENUE:		
Contract Revenue	\$ 573,865	\$ 561,425
Member Contributions	<u>225,000</u>	<u>390,000</u>
Total Operating Revenue	798,865	951,425
OPERATING EXPENSES:		
Salary Expense	74,250	61,500
Accounting Expense	17,670	18,740
Advertising Expense	506	100
Consulting Expense	736,898	141,100
Depreciation Expense	526	44
Dues and Subscriptions	79,000	6,200
Easement Expense	10,000	-
Insurance Expense	4,381	3,425
Interest Expense	31,988	-
Legal Expense	130,000	125,800
Meeting Expense	10,203	12,108
Office Expense	10,407	8,616
Repairs and Maintenance	4,705	2,020
Rent Expense	30,000	-
Research and Development	1,994,715	375,076
Payroll Taxes	5,616	5,018
Property Taxes	1,671	-
Seminar Expense	6,285	-
Supplies Expense	-	2,305
Travel Expense	71,211	10,439
Utilities Expense	<u>2,893</u>	<u>1,739</u>
Total Operating Expenses	<u>3,222,925</u>	<u>774,230</u>
Operating Income (Loss)	(2,424,060)	177,195
NON-OPERATING REVENUE:		
Interest Income	<u>668</u>	<u>389</u>
Change in Net Assets	(2,423,392)	177,584
Net Assets (Deficit), Beginning of Year	90,442	(87,142)
Net Assets (Deficit), End of Year	<u>\$ (2,332,950)</u>	<u>\$ 90,442</u>

See Notes to Financial Statements.

IOWA STORED ENERGY PLANT AGENCY

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED FEBRUARY 28, 2011 AND 2010**

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Receipts from Operations	\$ 722,865	\$ 961,425
Cash Paid to Employees and Related Costs	(79,866)	(65,018)
Cash Paid to Suppliers for Goods and Services	<u>(2,969,393)</u>	<u>(713,839)</u>
Net Cash from Operating Activities	(2,326,394)	182,568
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of Land, Property and Equipment	-	(225,522)
Received on Grant Contract	2,475,840	744,160
Principal Payments on Land Contract	<u>(60,000)</u>	<u>(20,000)</u>
Net Cash Flow from Capital and Related Financing Activities	2,415,840	498,638
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash Received on Investment Earnings	<u>668</u>	<u>389</u>
Increase (Decrease) in Cash and Invested Funds	90,114	681,595
Cash and Invested Funds, Beginning of Year	708,940	27,345
Cash and Invested Funds, End of Year	<u>\$ 799,054</u>	<u>\$ 708,940</u>
ADDITIONAL INFORMATION FOR NON-CASH TRANSACTIONS:		
Capital Assets Acquired by Land Purchase Contract	\$ <u>-</u>	\$ <u>1,480,000</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:		
Operating Income (Loss)	\$ (2,424,060)	\$ 177,195
Changes in Operating Assets and Liabilities -		
Depreciation	526	44
Accounts Receivable - (Increase) Decrease	(76,000)	10,000
Accounts Payable - Trade Increase	141,264	28,429
Accrued Interest Payable - Increase	31,876	-
Due to Iowa Association of Municipal Utilities (Decrease)	-	(33,100)
Net Cash from Operating Activities	<u>\$ (2,326,394)</u>	<u>\$ 182,568</u>

See Notes to Financial Statements.

IOWA STORED ENERGY PLANT AGENCY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. **Organization -**

Iowa Stored Energy Plant Agency (ISEPA) was organized on August 2, 2005, pursuant to the provisions of Chapter 28E of the Code of Iowa. ISEPA members are either public or private agencies who are bound by the terms of the 28E agreement filed with the Iowa Secretary of State. The purpose of ISEPA is to provide joint and coordinated action regarding the acquisition, financing and administration of its member interest in an electric plant or plants using natural gas or other gases, wind, biomass, air or other similar or related energy sources as a source for the generation of electric power.

ISEPA is in the research and development stage which consists of purchasing land where geological testing has indicated that an air storage facility would be successful and then drilling and testing at those sites. ISEPA has retained legal and consulting experts to assist in identifying project financing strategies and structures to be used in meeting the goals associated with its objectives.

B. **Reporting Entity -**

Generally accepted governmental accounting principles require ISEPA (the reporting entity) to consider if it has oversight responsibility or control over any other legal entity. Control or dependence is determined by appointing a voting majority of the governing board of another organization and, (a) have the ability to impose its will, or (b) is legally obligated or has otherwise assumed the financial burdens of another organization. ISEPA has no such oversight or control; therefore, no component units are included in these financial statements.

C. **Measurement Focus and Basis of Accounting -**

Measurement focus refers to what is measured and basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting determines the timing of when to recognize the measurement made, regardless of the measurement focus applied. The applicable generally accepted accounting principles are those similar to businesses in the private sector.

As a 28E organization, ISEPA is organized and presents its financial statements as a governmental proprietary enterprise fund using the economic resources measurement focus and accrual basis of accounting. As such, the fund measurement objective is the determination of operating income, changes in net assets, financial position, and cash flows similar to a private business entity. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the obligation is incurred.

D. **Revenue Recognition -**

ISEPA distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services or producing and delivering goods in connection with its principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The organization is in the research and development phase of operations. Accordingly, most income and expenses are considered to be for operations, even though there are no income producing activities at this stage of ISEPA's development.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. ***Budget -***

ISEPA is not required to and does not publish or approve a public budget. Accordingly, it is not required to present budgetary comparison information in these financial statements. ISEPA does, however, prepare an internal-use-only budget as required by Chapter 28E of the Code of Iowa.

F. ***Use of Estimates -***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

G. ***Cash and Invested Funds -***

Cash and invested funds (cash equivalents) for the purpose of reporting cash flows consist of amounts in operating bank accounts, including Iowa Public Agency Investment Trust (IPAIT).

H. ***Contributions -***

The members of ISEPA will receive ownership interests in any plant construction or joint venture resulting from this development stage period.

I. ***Capital Assets -***

Capital assets are recorded at cost, and depreciation is provided using the straight-line method over the estimated useful lives of the assets. Major acquisitions and improvements are capitalized. Expenditures for maintenance, repairs, acquisition of minor items, and research and development are charged to earnings as incurred. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reported in operations for the period.

J. ***Income Taxes -***

ISEPA, as a quasi-governmental entity, is not subject to federal and state income taxes.

NOTE 2 - CASH AND INVESTMENTS

Iowa Stored Energy Plant Agency (ISEPA) is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by ISEPA; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

All monies deposited with Iowa Public Agency Investment Trust (IPAIT) are held in the IPAIT Diversified Portfolio. The balances totaling \$675,597 and \$567,942 for 2011 and 2010, respectively, are not FDIC insured as IPAIT is not considered a financial institution. Instead, IPAIT is a common law trust established under Iowa law which authorizes Iowa public agencies to jointly invest moneys pursuant to a joint investment agreement. IPAIT is registered under the Investment Company Act of 1940. Investments in IPAIT are not classified as to custodial credit risk.

NOTE 3 - CAPITAL ASSETS

Details of changes in capital asset costs and depreciation reported are as follows:

	Beginning of Year	Increase	Decrease	End of Year
Land (not being depreciated)	\$ 1,695,000	\$ -	\$ -	\$ 1,695,000
Land Improvements	<u>10,522</u>	<u>-</u>	<u>-</u>	<u>10,522</u>
Total Cost	1,705,522	-	-	1,705,522
Less -				
Accumulated Depreciation	44	526	-	570
Capital Assets, Net	<u>\$ 1,705,478</u>	<u>\$ (526)</u>	<u>\$ -</u>	<u>\$ 1,704,952</u>

NOTE 4 - NON-CURRENT LIABILITIES

On November 9, 2009, Iowa Stored Energy Plant Agency (ISEPA) signed a real estate purchase contract in the amount of \$1,500,000 for the purchase of property in Dallas County, Iowa. Terms include a \$10,000 payment at execution of the contract; \$10,000 due on or before February 1, 2010; and \$60,000 due no later than May 1, 2010. The remaining contract balance of \$1,420,000 is due in annual payments of \$80,000, plus interest, on May 1, 2011, and then \$89,333, plus interest, each following May 1 through 2014, with a final balloon payment of \$1,072,000, plus interest, May 1, 2015. Interest is to be calculated at the Applicable Federal Rate (2.59%) calculated from May 1, 2010. The agreement further stipulates that ISEPA may terminate the agreement should testing indicate that the property is not suitable for ISEPA's intended use or should ISEPA decide for any reason to not proceed with the compressed air energy storage project.

On December 10, 2008, ISEPA was awarded a contract with the Iowa Office of Energy Independence (IOEI), administrative entity for the Iowa Power Fund Board, as a repayable grant contract for \$3,200,000. The same contract calls for another \$1,500,000 to come from the Department of Energy. The terms require ISEPA to repay the grant, with no interest, if the technology developed by the project is successful and implemented. The repayment will be from the completion of the project over the next 48 months at \$100,000 per month. Through the year ended February 28, 2011, \$3,200,000 was advanced to ISEPA. This grant contract stipulates that if the testing is unsuccessful, the funds will not be repaid.

NOTE 4 - NON-CURRENT LIABILITIES (Continued)

Changes in non-current liabilities for the year are as follows:

	Beginning of Year	Increase	Decrease	End of Year
Land Purchase Contract	\$ 1,480,000	\$ -	\$ 60,000	\$ 1,420,000
Grant Contract - IOE	<u>2,324,160</u>	<u>875,840</u>	<u>-</u>	<u>3,200,000</u>
Subtotals	<u>\$ 3,804,160</u>	<u>\$ 875,840</u>	<u>\$ 60,000</u>	<u>4,620,000</u>
Less - Current Maturities				80,000
				<u>\$ 4,540,000</u>

Total future maturities of non-current liabilities principal and interest are as follows:

Year Ending February 28,	Principal	Interest	Total
2012	\$ 80,000	\$ 36,778	\$ 116,778
2013	89,333	34,706	124,039
2014	89,333	32,393	121,726
2015	89,334	30,078	119,412
2016	<u>1,072,000</u>	<u>27,765</u>	<u>1,099,765</u>
Total Land Purchase Contract	1,420,000	161,720	1,581,720
Grant Contract - Indeterminate	3,200,000	-	3,200,000
Totals	<u>\$ 4,620,000</u>	<u>\$ 161,720</u>	<u>\$ 4,781,720</u>

NOTE 5 - COMMITMENTS AND CONTINGENCIES

Iowa Stored Energy Plant Agency (ISEPA) has a contract with its attorney to provide general counsel services at a rate of \$15,000 per month. This contract is at-will and can be terminated by either party for any reason.

ISEPA has contracted with a consultant to provide technical and management consulting services. This contract is at-will and can be terminated by either party for any reason.

Geological issues have been encountered which indicate the site will not be able to accommodate the size of the structure required by ISEPA. Accordingly, the project is likely to shut down within the following year.

NOTE 6 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 25, 2011, which is the date the financial statements were available to be issued, and believes that no events have occurred that require adjustment of, or disclosure in, the financial statements.

IOWA STORED ENERGY PLANT AGENCY

OTHER REPORT

O'Donnell, Ficenec, Wills & Ferdig, LLP

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Iowa Stored Energy Plant Agency
Traer, Iowa

We have audited the financial statements of the Iowa Stored Energy Plant Agency (ISEPA) for the year ended February 28, 2011, and have issued our report thereon dated October 25, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered ISEPA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ISEPA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ISEPA's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.


Compliance and Other Matters

As part of obtaining reasonable assurance about whether the ISEPA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instance of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about ISEPA's operations for the year ended February 28, 2011, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of ISEPA. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report is intended solely for the information and use of governance and management, members and customers of ISEPA, the Iowa Power Fund Board, and other parties to whom it may report and is not intended to be and should not be used by anyone other than these specified parties.

O'DONNELL, FICENEC, WILLS & FERDIG, LLP

By  _____
Certified Public Accountant

October 25, 2011

IOWA STORED ENERGY PLANT AGENCY
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED FEBRUARY 28, 2011

PART I: SUMMARY OF THE INDEPENDENT AUDITORS' RESULTS

- (a) An unqualified opinion was issued on the financial statements.
- (b) The audit did not disclose any noncompliance which could have a material effect on the financial statement amounts.
- (c) No material weaknesses in internal control were noted.

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Instances of Non-Compliance:

No matters were noted.

Reportable Conditions:

No matters were noted.

PART III: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

- (1) Questionable Expenses - No expenses that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979, were noted.
- (2) Travel Expense - No expenditures of money for travel expenses of spouses of Iowa Stored Energy Plant Agency officials or employees were noted.
- (3) Business Transactions - Business transactions between Iowa Stored Energy Plant Agency and the organizations officials are immaterial and meet the guidelines of the Code of Iowa.
- (4) Board Minutes - No transactions were found that we believe should have been approved in the Administrative Board minutes but were not.
- (5) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted.